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UNCLAS SECTION 01 OF 02 BEIJING 021160

SIPDIS

TREASURY FOR IA-DOHNER HAARSAGER, CUSHMAN, YANG
MOGHTADER

SENSITIVE
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SUBJECT: SED: PAULSON-BO XILAI MEETING

Summary

1. (SBU) Treasury Secretary Henry Paulson met with Minister of Commerce Bo Xilai on September 21 to outline U.S. goals and expectations for the Strategic Economic Dialogue (SED). Secretary Paulson emphasized the need for currency

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flexibility and asked for Chinese support in reinvigorating the stalled Doha Round. Minister Bo welcomed the initiation of the SED, and emphasized the importance President Hu Jintao places on it. Bo said he looks forward to developing a strong working relationship between the SED and the Joint Commission on Commerce and Trade (JCCT). Minister Bo also stated that he believes the Schumer-Graham Bill, if enacted, would have a negative impact on U.S.-China relations. End Summary.

Passage of Schumer-Graham Would Damage Relations

2. (SBU) Minister Bo discussed possible repercussions of the Schumer-Graham Bill becoming law. He posited that the bill, if enacted, would damage U.S.-China economic relations. He added that the bill likely would force China's economic community to respond and would lead to increased protectionism. Bo noted that the U.S.-China trading relationship is not as bad as some policymakers in the United States believe. Bo said: (1) U.S. exports increased by 20 percent to China, (2) most of China's exports were produced by foreign invested enterprises, and (3) the Asia-Pacific region's overall share of the U.S. trade deficit had declined by 14 percentage points from 57 percent in 1999 to 43 percent in 2005.

Exchange Rate Flexibility Would Help Contain Protectionism

3. (SBU) Secretary Paulson stated that by introducing the Schumer-Graham Bill, the two Senators seek to respond to their constituents' concerns. Paulson assured Minister Bo that both he and President Bush deem protectionist sentiments to be unhealthy for an economy and that he would do everything he could to dissuade the Senate from passing the bill, and in any case, even if it passed the Senate it was unlikely to become law. In response to Bo's point about the bill's potential damage to the U.S.-China

economic relationship, however, Paulson highlighted the continuing negative impact of China's reticence on exchange rate flexibility and other bilateral issues, especially at a time when many Americans fear for their jobs.

14. (SBU) Secretary Paulson stressed that a freely tradable currency allows for efficient use of capital, ensuring that investors receive good returns and savings are recycled effectively. A more efficient financial system would support continued economic development in China and thereby promote social stability. Minister Bo stated that establishing a flexible rate would be good for China in the long-term, but he contended that China's cheap cost of labor would always give them a competitive edge even when China begins to export higher technology products and as such would have a limited impact on trade imbalances.

15. (SBU) The Minister concluded with a request that the United States reduce its agricultural subsidies to its farmers. Secretary Paulson said that the United States supports fair trade agreements but that Congress is not likely to pass new agreements without increased access to other markets. Paulson praised China for allowing U.S. agricultural products access to its market and sought China's help in opening closed markets such as India, Brazil and the European Union.

16. (U) Participants:

United States

Henry Paulson: Treasury Secretary

Clark T. Randt: United States Ambassador to China

Al Hubbard: Director of the National Economic Council and
Assistant to the President for Economic Policy

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Tim Adams: Treasury Under-Secretary for International
Affairs

Dan Sullivan: Assistant Secretary of State for Economic and
Business Affairs

Tony Fratto: Treasury Assistant Secretary for Public
Affairs

Deborah Lehr: Counselor to the Secretary of the Treasury

Bob Dohner: Treasury Deputy Assistant Secretary for Asia

Taiya Smith: Deputy Treasury Chief of Staff

Mathew P. Haarsager: Treasury Director-Office of East Asia

Benjamin Cushman: International Economist Treasury

International Affairs Office for East Asian Nations

David Loevinger: Minister-Counselor for Financial Affairs

Hugo Yon: Assistant Financial Attach

Oz Tat: Economic Officer, Notetaker

Jim Brown, interpreter

China

Minister of Commerce Bo Xilai

Vice-Minister of Commerce Ma Xiuhong

DG Shang Ming, Department of Treaties and Law

DG He Ning, Department of American and Oceanian Affairs

DG Wang Shouwen, Bureau of Fair Trade

Secretary General Xiang Xin, Market Order Rectification

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Office

DDG Sun Peng, Foreign Investment Administration

DDG Zhou Ping, Department of Protocol

Liu Haiyan, Department of American and Oceanian Affairs

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